

RAPID RIVER HOUSING COMMISSION

**AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

June 30, 2007

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Rapid River Housing Commission	County Gogebic
Fiscal Year End 6/30/2007	Opinion Date 12/3/2007	Date Audit Report Submitted to State 2/5/2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☒ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☒ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☒ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☒ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

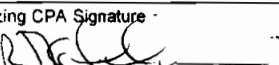
We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Roger J. Kolehmainen CPA PC		Telephone Number 906-932-3600	
Street Address 1445 East US 2		City Ironwood	State MI
		Zip 49938	
Authorizing CPA Signature 		Printed Name Roger J. Kolehmainen	License Number 1101011820

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**Rapid River Housing Commission
Management, Discussion & Analysis
(Unaudited)**

The purpose of this MD & A is to serve as a basic tool for reading and understanding the financial statements of the Housing Commission. The information presented here should be viewed in conjunction with the Commission's financial statements. The Housing Commission's books are reported using the full accrual method, which means that all revenues and expenses are taken into account regardless of when cash is received and/or paid out. The programs are funded directly by the United States Department of Housing and Urban Development.

Using This Report

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows provides information about the activities of the Commission as a whole and present a longer-term view of the Commission's finances.

The Housing Commission prepares the above financial statements in a similar manner used by most private-sector companies. The Statement of Net Assets reflects the financial health of the Housing Commission. The difference between assets and liabilities, which increase or decreases in net assets, indicates the financial health of the project. The greater the net assets amount, the healthier the finances of the Commission. Other non-financial factors will also need to be considered such as changes to population of low income and elderly individuals. The following summarizes the two programs that the Rapid River Housing Commission operates on a daily basis.

Low Rent Public Housing

The Housing Commission was developed in 1982 and currently owns 24 units that are provided to both elderly and disabled individuals. The Commission is responsible for management, maintenance, utilities and various other tasks associated with operating the project, also known as Riverside Manor. Each year, the Housing Commission applies for Operating Subsidy, which is funded at a level determined by HUD. In addition to tenant revenue, interest income and other miscellaneous income, the subsidy is used to provide safe and affordable housing to residents.

Capital Fund

The Housing Commission is awarded this grant each year, based on HUD's available funding. It is used to for physical improvement of the property and surrounding landscape and management support. It may also be used for equipment such as dwelling equipment, office, maintenance and community room equipment and operating expenses. The funds should be expended as they are drawn down through what is called a LOCCS system.

**Rapid River Housing Commission
Management, Discussion & Analysis
(Unaudited)**

The financial statements included in this report are those of a non-profit enterprise fund engaged in a business-type activity. The following statements are included:

- Statement of Net Assets - reports on the Commission's current financial resources with capital and other assets and long-term debt obligations and other liabilities.
- Statement of Revenues, Expenses and Changes in Fund Net Assets- reports the Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.

Statement of Net Assets

Assets	<u>2007</u>	<u>2006</u>	<u>Change</u>
Cash/Investments	\$113,411	\$106,833	\$6,578
Other Current Assets	8,193	9,950	(1,757)
Capital Assets, Net	680,950	726,056	(45,106)
TOTAL ASSETS	\$802,554	\$842,839	(\$40,285)
Liabilities			
Accounts Payable	\$4,749	\$2,590	\$2,159
A/P-Other Gov't	2,876	4,338	(1,462)
Other Current Liabilities	11,059	9,869	1,190
Total Liabilities	\$18,684	\$16,797	\$1,887
Net Assets			
Invested in Capital Assets	\$680,950	\$726,056	(\$45,106)
Unrestricted Net Assets	102,920	99,986	2,934
Total Net Assets	\$783,870	\$826,042	(\$42,172)
TOTAL LIABILITIES AND NET ASSETS	\$802,554	\$842,839	(\$40,285)

Total Assets for FYE 2007 total \$802,554, which is \$40,285 less than FYE 2006. Total liabilities for FYE 2007 total \$18,684, which is \$1,887 more than FYE 2006. Net Assets declined by \$42,172 due mainly to depreciation expense of \$58,211.

**Rapid River Housing Commission
Management, Discussion & Analysis
(Unaudited)**

Statement of Revenues, Expenses and Changes in Fund Net Assets

	<u>2007</u>	<u>2006</u>	<u>Change</u>
Operating Revenues			
Tenant Revenue	\$71,151	\$65,393	\$5,758
Operating Grants/Subsidy	52,951	31,776	21,175
Miscellaneous Revenue		620	(620)
Total Operating Revenues	\$124,102	\$97,789	\$26,313
Operating Expenses			
Administration	\$26,208	\$25,307	(\$901)
Tenant Services	150	467	317
Utilities	26,367	26,269	(98)
Maintenance	46,032	33,554	(12,478)
General	7,502	7,219	(283)
Extraordinary maintenance	6,000	5,794	(206)
Depreciation	58,211	55,664	(2,547)
Total Operating Expenses	\$170,470	\$154,274	(\$16,196)
Operating Income/(Loss)	(46,368)	(56,485)	10,117
Non-operating Revenues			
Interest Income	2,534	1,961	573
Capital Grants	2,338	30,903	(28,565)
Change in Net Assets	(41,496)	(23,621)	(17,875)
Total Assets-Beginning	826,042	849,663	(23,621)
Prior Period Adjustment	(676)		(676)
Total Assets-Ending	\$783,870	\$826,042	(\$42,172)

The total increase in revenue is approximately 27% and is mainly due to increases in tenant revenue, operating subsidy and CFP monies. The total increase in expenses is approximately 10% and is due to slight increase in maintenance cost and depreciation costs.

The Housing Commission's financial success is dependent on operating and capital grants received from the US Dept of HUD. There are various local economic factors that could affect the Commission's profit or loss, such as local employment opportunities, supply and demand for local jobs and housing units, and inflationary adjustments to utilities and other local suppliers. In spite of rising operating costs, the Rapid River Housing Commission will continue to do the best job they can in providing safe, sanitary and decent housing for their residents.

**Rapid River Housing Commission
Management, Discussion & Analysis
(Unaudited)**

Capital Assets

The Commission had \$680,950 investment in various types of capital assets including land, buildings and equipment at June 30, 2007 compared to \$726,056 at June 30, 2006. The Commission invested \$13,105 in capital assets during the year ended June 30, 2007.

Economic Factors and Next Year's Budgets and Rates

The Commission's appointed officials considered many factors when setting the budget for the fiscal year 2007/2008. The current availability of low income and elderly tenants has been a major contributing factor in establishing the budgeted amounts. In the upcoming year, we do not anticipate any significant change in the occupancy rate and availability of new tenants that will provide any substantial increase in revenues. There continues to be a variety of inflationary cost and expense issues out of the control of the Commission. All of these were taken into consideration during the 2007/2008 budget process.

Contacting the Commission's Financial Management

This report was written to provide readers with a general overview of the Commission's finances and the manner in which it spends the revenue it receives. If you have questions about this report or need additional information, contact the Executive Director, at 10570 North Main Street, Rapid River, Mi 49878, or call (906) 474-9370.

Roger J. Kolehmainen PC CPA
1445 East Cloverland Drive
Ironwood, MI 49938
(906) 932-3600

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Rapid River Housing Commission
Rapid River, Michigan

We have audited the accompanying financial statements of the business-type activities of the Rapid River Housing Commission as of and for the year ended June 30, 2007, which collectively comprise the Commission's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the business-type activities of the Rapid River Housing Commission as of June 30, 2007, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2007 on our consideration of the Rapid River Housing Commission's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Rapid River Housing Commission's basic financial statements. The Financial Data Schedule and Schedule of Expenditures of Federal Awards is presented for the purpose of additional analysis as required by the U.S. Department of Urban Housing and Development and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Roger J. Kolehmainen PC
Certified Public Accountants
Ironwood, Michigan

December 3, 2007

RAPID RIVER HOUSING COMMISSION

STATEMENT OF NET ASSETS

Proprietary Fund

June 30, 2007

ASSETS

Current Assets

Cash and cash equivalents	\$113,411
Tenants receivables	533
Account receivable-HUD	2,338
Account receivable-other	637
Accrued interest receivable	48
Prepaid expenses	2,071
Inventories	2,566
Total Current Assets	<u>121,604</u>

Noncurrent Assets

Capital Assets:

Land	1,305
Buildings	1,483,966
Equipment	46,825
Leasehold improvements	217,770
Accumulated depreciation	(1,071,254)
Construction in progress	2,338
Total Capital Assets	<u>680,950</u>

TOTAL ASSETS

\$802,554

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$4,749
Accrued payroll/taxes	2,445
Intergovernmental payables	2,876
Deferred revenues	4,872
Total Current Liabilities	<u>14,942</u>

Other Liabilities

Tenant deposits	3,742
TOTAL LIABILITIES	<u>18,684</u>

Net Assets

Investment in capital assets, net of related debt	680,950
Unrestricted net assets	102,920
TOTAL NET ASSETS	<u>783,870</u>

TOTAL LIABILITIES AND NET ASSETS

\$802,554

The accompanying notes to financial statements are an integral part of this statement.

RAPID RIVER HOUSING COMMISSION

STATEMENT OF ACTIVITIES

For the year ended June 30, 2007

<u>FUNCTIONS/PROGRAMS</u>	<u>Program Revenue</u>				Net (Expense) Revenues and Changes in Net Assets <u>Business-Type Activities</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Public Housing	\$171,146	\$71,151	\$52,951	\$2,338	(\$44,706)
General revenues:					
Interest income					2,534
Total general revenues					<u>2,534</u>
Changes in net assets					(42,172)
Net assets, beginning of year					826,042
Net assets, end of year					<u>\$783,870</u>

The accompanying notes to financial statements are an integral part of this statement.

RAPID RIVER HOUSING COMMISSION

STATEMENT OF REVENUES, EXPENSES AND
CHANGE IN NET ASSETS
Proprietary Fund

For the Year Ended June 30, 2007

<u>OPERATING REVENUES</u>	<u>TOTALS</u>
Tenant revenue	\$61,704
Other income	9,447
Program grants - subsidies	52,951
TOTAL OPERATING REVENUE	<u>\$124,102</u>
 <u>OPERATING EXPENSES</u>	
Administration	\$26,208
Tenant services	150
Utilities	26,367
Ordinary maintenance	46,032
General expenses	7,502
Extraordinary maintenance	6,000
Depreciation	58,211
TOTAL OPERATING EXPENSES	<u>\$170,470</u>
 OPERATING INCOME OR LOSS	 (46,368)
 NONOPERATING REVENUES (EXPENSES)	
Interest on investments	2,534
Capital grants	2,338
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>\$4,872</u>
 Changes in Net Assets	 (41,496)
 Net Assets - Beginning of Year	 826,042
Prior Period Adjustment	<u>(676)</u>
 NET ASSETS - END OF YEAR	 <u>\$783,870</u>

The accompanying notes to financial statements are an integral part of this statement.

RAPID RIVER HOUSING COMMISSION

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2007

Operating Activities:

Cash received from tenants	\$71,570
Cash received from grants and subsidies	60,199
Cash payments for wages and related benefits	(33,177)
Cash payments for utilities	(25,600)
Cash payments to suppliers for goods and services	(57,495)
Net cash provided from Operating Activities	<u>\$15,497</u>

Capital and Related Financing Activities

Capital grants received	1,652
Purchase of fixed assets	(13,105)
Net cash flows from Capital and Financing Activities	<u>(11,453)</u>

Investing Activities

Interest on investments	2,534
Net cash flows from Investing Activities	<u>2,534</u>

Net Change in Cash and Cash Equivalents \$6,578

Cash and Cash Equivalents- beginning of year 106,833

CASH AND CASH EQUIVALENTS- END OF YEAR \$113,411

Reconciliation of Operating Income to Net Cash

Provided by Operating Activities:

Operating income (loss) (\$46,368)

Adjustments to reconcile operating income to net

Cash provided by operating activities:

Depreciation 58,221

Changes in assets and liabilities:

Decrease (Increase) in receivables 2,470

Decrease (Increase) in prepaids (713)

Decrease (Increase) in inventory (1)

Increase (Decrease) in accounts payable 2,159

Increase (Decrease) in accrued wages/taxes (1,892)

Increase (Decrease) in intergovernmental payable 194

Increase (Decrease) in deferred revenues 2,048

Increase (Decrease) in tenant deposits (621)

Net Cash Provided from Operating Activities \$15,497

The accompanying notes to financial statements are an integral part of this statement.

RAPID RIVER HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Rapid River Housing Commission's ("The Authority"), Masonville Township, is to prepare its financial statements in accordance with accounting principles generally accepted in the United States of America as applicable to enterprise funds of governmental units.

A. REPORTING ENTITY - This report contains the financial information of the Rapid River Housing Commission of the Township of Masonville Township (the "Authority"), which is a component unit of the Township of Masonville. The Authority is a legally separate organization. The Township Board of Masonville appoints the five members Board of Commissioners for five-year terms. The Board sets policy of the Authority and hires the Executive Director who hires and directs the Authority's staff. The reporting entity for the Authority consists of (a) primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to or burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government. This report does not contain any component units.

The Authority was established for the purpose of engaging in the development, acquisition, and administrative activities of low-income housing programs and other programs with similar objectives. The United States Department of Housing and Urban Development (HUD) has direct responsibility for administering the low-income programs under the United States Housing Act of 1937, as amended. HUD is authorized to enter into contracts with local housing authorities to make loans to assist the local housing authorities in financing the acquisition,

RAPID RIVER HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

construction and/or leasing of housing units and to make annual contributions (subsidies) to local housing authorities for the purpose of maintaining the low-rent character of the local housing programs.

The accounting policies of the Commission conform to accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

B. FINANCIAL STATEMENTS - The Commission presents its financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34. The Authority made the decision to implement these standards effective July 1, 2003.

Government-Wide Financial Statements

The Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows display information about the Commission as a whole. They include all business-type activities of the Commission. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purpose.

RAPID RIVER HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION - The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are segregated into "investment in capital assets, net of related liabilities"; "restricted for capital activity and debt service", and "unrestricted" components.

The Authority has elected to follow Financial Accounting Standards Board pronouncements issued before November 30, 1989, and all pronouncements of the Governmental Accounting Standards Board. The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for dwelling rental and operating grants and subsidies funded by HUD. Operating expenses for the Authority include administrative expenses, tenant expenses, maintenance and operation, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Deposits and Investments - For purposes of the statement of cash flows, the Authority considers all highly liquid investment with an initial maturity of three months or less when acquired to be cash equivalents.

RAPID RIVER HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustment necessary to record investments at fair value is recorded in the operating statement as increases or decreases in investment income.

Inventory is recorded at the lower of cost or market and primarily consisted of maintenance supplies and materials.

Receivables - The Authority uses the direct write-off method to recognize uncollectible accounts. All receivables are shown net of allowance for doubtful accounts.

Prepaid Items - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Restricted Assets - Mandatory segregation of assets are presented as restricted assets. Such segregations are required by loan agreements and other external parties. Current liabilities payable from these restricted assets are so classified.

Capital Assets - The Authority defines capital assets as assets with an initial cost of more than \$50 and an estimated useful life in excess of 1 year. All capital assets are valued at historical cost or estimated historical cost if actual amounts are unavailable. Donated fixed assets are recorded at their estimated fair value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related assets.

RAPID RIVER HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Building shell and components	3-40 Years
Land improvements	15-20 Years
Furnishing and equipment	3-20 Years

Compensated Absences - Under terms of employment, employees are granted sick and vacation leave in varying amounts. Only benefits considered to be vested are disclosed in these statements.

All vested vacation and sick leave pay is recognized as an expense as earned by the employee.

Payments for vacation and sick leave will be made at rates in effect when the benefits are used. There was no accumulated vacation and sick leave liabilities as of June 30, 2007.

Claims and Judgments - Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standard Board pronouncements are met. Claims and judgments are recorded as expenses when the related liabilities are incurred. There were not significant claims or judgments at year-end.

Equity Classifications - Equity is classified as net assets and displayed in two components:

Government-Wide Statements:

- Investment in capital assets, net of related debt - Consists of capital assets net of accumulated depreciation.
- Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Revenues and Expenses - Operating revenues and expenses are those that result from providing services and producing and delivering goods and/or services. It also includes all revenues

RAPID RIVER HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

and expenses not related to capital and related financing, noncapital financing, or investing activities. Expenses are classified by operating and nonoperating and are subclassified by function, such as salaries, supplies, and contractual services.

Inter-program Activity - As a general rule, the effect of activity between programs has been eliminated from the government-wide financial statements.

The transfer of cash between the various Authority's programs are reported separately from revenues and expenses as operating transfers in or (out), unless they represent temporary advances that is be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing program.

Inter-program receivables and payables are eliminated from the Statement of Net Assets.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCONTABLITY

BUDGETARY INFORMATION - the Authority is required by contractual agreements to adopt annual, appropriated operating budgets for funds receiving federal expenditure awards. All budgets are prepared on a basis prescribed by HUD, which is materially consistent with generally accepted accounting principles. The Commission follows these procedures in establishing the budgetary date reflected in the financial statements:

1. The Director submits to the Board a proposed operating budget for the year commencing on July 1st. The operating budget includes proposed expenses and the means of financing them. Prior to June 30th, the budget is legally adopted by Board resolution.
2. Formal budgetary integration is employed as a management control device during the year.
3. The budget has been amended prior to June 30th.

All annual appropriations lapse at year-end.

RAPID RIVER HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 3 - DETAILED NOTES ON ALL FUNDS

- A. DEPOSITS AND INVESTMENTS - The Authority's deposits comply with Michigan Compiled Laws, Section 129.91, which authorizes the Authority to deposit and invest in the accounts of Federally insured banks. Credit unions and savings and loan associations which have an office in the State of Michigan. The Authority is allowed to invest in bonds, securities and other direct obligations of the United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States banks, commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or it's political subdivisions which are rated as investment grade and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Authority has deposited all monies in one banking institution. Deposits in the area bank is insured by the FDIC in the amount of \$100,000 for interest bearing accounts and \$100,000 for non-interest bearing accounts. In accordance with GASB Statement No.3, risk disclosures for bank deposits at June 30, 2007 are:

A.	Insured or collateralized with securities held by the entity or by its agent in the entity's name	\$100,000
B	Uncollateralized	<u>15,205</u>
	Subtotal	\$115,205
	Less outstanding checks	<u>(1,794)</u>
	Balance at June 30, 2007	<u>\$113,411</u>

Tenant Deposits - Tenant security deposits included in the above cash accounts can be used for repairs and/or repayment upon termination of lease, amounted to \$3,742 as of June 30, 2007.

RAPID RIVER HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

B. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Additions/ Reclassified</u>	<u>Deletions/ Reclassified</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated				
Land	\$1,305	\$	\$	\$1,305
Other Capital Assets				
Buildings	\$1,461,700	\$22,266	\$	\$1,483,966
Furniture, equipment and machinery-				
Dwellings	14,599			14,599
Administrative	31,550	676		32,226
Leasehold improvements	217,770			217,770
Construction in Progress	12,175	2,338	12,175	2,338
Total Capital Assets at Cost	\$1,739,099	\$25,280	(\$12,175)	\$1,752,204
Less: Accumulated Depreciation	(1,013,043)	(58,211)		(1,071,254)
Net Capital Assets	\$726,056	(\$32,931)	(\$12,175)	\$680,950

Depreciation expense for the year was \$58,211.

C. SUPPLIES

The Authority's inventory consists of supplies and small tools purchased primarily for use in maintenance of rental units. A physical inventory is taken of all supplies on hand at year-end. The last in, first out pricing method is used in determining inventory valuation as of June 30, 2007.

D. DEFERRED REVENUES

The Authority requested a budget amendment on CFP 2005 in requesting balance of monies (\$4,872) be allowed for operations (1406) in lieu of dwelling structures (1460). Amount deferred pending HUD approval.

RAPID RIVER HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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E. USE OF ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates.

F. INCOME TAXES

No provision for income taxes is recorded in the accounts, as the Authority is a non-profit, tax-exempt entity under the Internal Revenue Code. The Authority is not subject to Federal or State income taxes, nor is it required to file Federal and State income tax returns.

G. CONTINGENCIES

- The Authority is subject to possible examinations made by Federal and State authorities who determine compliance with terms, conditions, laws and regulations governing other grants to the Authority in current and prior years. There was no such examination completed during the year ended June 30, 2007.
- The Commission's sole asset is a 24 unit senior citizen housing project, this operates in a heavily regulated environment. The Commission is subject to administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of congress or an administrative change mandated by HUD. Such changes may occur with little or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

RAPID RIVER HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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H. PENSION

The Authority has adopted a Simplified Employee Pension Plan (SEP) covering employees who have met certain service requirements. The defined annual contribution provides for employer's match of 7.65% of gross wages. The Authority's contributions of \$2,362 are immediately vested with the employee upon payment.

I. RISK MANAGEMENT

The Authority is exposed to various risks of loss relating to property loss, torts, errors, and omissions, employee injuries and natural disasters. The Authority has obtained coverage from a commercial insurance company. The Authority has comprehensive general liability coverage of \$1,000,000 per occurrence and \$3,000,000 in the aggregate and has obtained worker's compensation coverage.

All risk management activities are accounted for in the financial statements of the Authority. Expenses and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported are considered. Management estimates that the amount of actual or potential claims against the Authority as of June 30, 2007, will not materially affect the financial condition of the Authority. Therefore, the financial statements contain no provision for estimated claims. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past five years.

J. CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Authority is dependent upon the Department of Housing and Urban Development (HUD) to fund its operations through operating subsidies and capital funding grants. The total operating revenues for the year amounted to \$124,102, which consisted of \$52,951 (43%) in the form of HUD contributions.

The operations of the project are subject to rules and regulations of HUD. These rules and regulations are subject to change. Such changes may occur with short notice and could create a lack of funding to pay for operational related costs, including the additional administrative burden to comply with the changes.

RAPID RIVER HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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K. PRIOR PERIOD ADJUSTMENT

The Authority received less HUD subsidy (\$676) than what was recognized in the prior year's financial statements. Account receivable and net assets were adjusted for the reduced amount actually received.

**SUPPLEMENTAL
INFORMATION**

RAPID RIVER HOUSING COMMISSION

FINANCIAL DATA SCHEDULE
Proprietary Fund

June 30, 2007

Line Item #	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	TOTAL
ASSETS				
CURRENT ASSETS				
	Cash			
111	Cash-unrestricted	\$80,831	\$	\$80,831
100	Total cash	80,831		80,831
122	Accounts receivable-HUD		2,338	2,338
125	Accounts receivable-Misc	637		637
126	Accounts receivable-tenants	533		533
129	Accrued interest receivable	48		48
120	Total receivables	1,218		1,218
	Other current assets			
131	Investments-Unrestricted	32,580		32,580
142	Prepaid expenses	2,071		2,071
143	Inventories	2,566		2,566
144	Interprogram due from	2,338	4,872	7,210
150	TOTAL CURRENT ASSETS	121,604	7,210	128,814
NONCURRENT ASSETS				
	Fixed assets:			
161	Land	1,305		1,305
162	Buildings	1,471,790	12,176	1,483,966
163	Furniture,equipment-dwell	14,599		14,599
164	Furniture,equipment-admin	32,226		32,226
165	Leasehold improvements	217,770		217,770
166	Accumulated depreciation	(1,068,819)	(2,435)	(1,071,254)
167	Construction in progress		2,338	2,338
160	Fixed assets,net of accum deprec	668,871	12,079	680,950
180	Total non-current assets	668,871	12,079	680,950
190	Total Assets	\$790,475	\$19,289	\$809,764

See accompanying notes to financial statements.

RAPID RIVER HOUSING COMMISSION

FINANCIAL DATA SCHEDULE
Proprietary Fund

June 30, 2007

Line Item #	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	TOTAL
<u>LIABILITIES AND NET ASSETS</u>				
LIABILITIES				
CURRENT LIABILITIES				
312	Accounts payable< 90 days	\$4,749	\$	\$4,749
321	Accrued wages/payroll taxes	2,445		2,445
333	Accounts payable-other gov't	2,876		2,876
341	Tenant security deposits	3,742		3,742
342	Deferred revenues		4,872	4,872
347	Interprogram due to	4,872	2,338	7,210
310	Current liabilities	18,684	7,210	25,894
350	TOTAL NONCURRENT LIABILITIES			
300	TOTAL LIABILITIES	18,684	7,210	25,894
NET ASSETS				
508.1	Investment in capital assets, net of related debt	668,871	12,079	680,950
512.1	Unrestricted net assets	102,920		102,920
513	TOTAL NET ASSETS	771,791	12,079	783,870
600	TOTAL LIABILITIES AND NET ASSETS	\$790,475	\$19,289	\$809,764

See accompanying notes to financial statements.

RAPID RIVER HOUSING COMMISSION

FINANCIAL DATA SCHEDULE
Proprietary Fund

For the Year Ended June 30, 2007

Line Item #	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	TOTAL
<u>REVENUES</u>				
703	Net tenant rental revenue	\$61,704	\$	\$61,704
704	Tenant revenue-other			
705	Total tenant revenue	61,704		61,704
706	HUD PHA grants	37,951	15,000	52,951
706.1	Capital grants		2,338	2,338
711	Investment inc-unrestricted	2,534		2,534
715	Other revenue	9,447		9,447
700	TOTAL REVENUES	111,636	17,338	128,974
<u>EXPENSES</u>				
Administrative				
911	Administrative salaries	18,909		18,909
912	Auditing fees	1,800		1,800
915	Employee benefit contribution	1,334		1,334
916	Other operating-administrative	4,165		4,165
	Total Administrative	26,208		26,208
924	Tenant service-other	150		150
Utilities				
932	Electricity	14,548		14,548
933	Gas	11,819		11,819
	Total Utilities	26,367		26,367
Maintenance				
941	Ordinary maintenance-labor	11,910		11,910
942	Ordinary maintenance-material	4,177		4,177
943	Ordinary maintenance-contract	29,117		29,117
945	Employee benefit contribution	828		828
	Total Maintenance	46,032		46,032
General Expense				
961	Insurance premiums	4,384		4,384
963	Payments in lieu of taxes	2,876		2,876

See accompanying notes to financial statements.

RAPID RIVER HOUSING COMMISSION

FINANCIAL DATA SCHEDULE
Proprietary Fund

For the Year Ended June 30, 2006

Line Item #	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	TOTAL
964	Bad debts- tenant rents	242		242
	Total General Expenses	7,502		7,502
969	TOTAL OPERATING EXPENSES	106,259		106,259
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	5,377	17,338	22,715
971	Extraordinary maintenance	6,000		6,000
974	Depreciation expenses	55,776	2,435	58,211
900	TOTAL OTHER EXPENSES	61,776	2,435	64,211
	Other financing sources(uses)			
1001	Operating Transfers In	15,000		15,000
1002	Operating Transfers Out		(15,000)	(15,000)
1010	Total other financing sources(uses)	15,000	(15,000)	
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	(\$41,399)	(\$97)	(\$41,496)

See accompanying notes to financial statements.

RAPID RIVER HOUSING COMMISSION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2007

<u>Federal Grantor Program</u>	<u>Federal CFDA Number</u>	<u>Program Award Amount</u>	<u>Federal Expenditures</u>
US Department of HUD			
Operating Subsidy	14.850a	\$37,951	\$37,951
CFP 2005	14.872	27,048	15,000
CFP 2006	14.872	25,950	<u>2,338</u>
Total Federal Expenditures			<u>\$55,289</u>

See accompanying notes to financial statements.

Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance With Government Auditing
Standards

Board of Commissioners
Rapid River Housing Commission
Rapid River, Michigan

We have audited the financial statements of the business-type activities of the Rapid River Housing Commission as of and for the year ended June 30, 2007, which collectively comprise the Rapid River Housing Commission's basic financial statements and have issued our report thereon dated December 3, 2007. We conducted the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Rapid River Housing Commission's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing the audit, we considered Authority's internal control over financial reporting in order to determine auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatement in amounts that would be material

in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management, Board of Commissioners and Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.



Roger J. Kolehmainen PC
Certified Public Accountants
Ironwood, Michigan

December 3, 2007